Supreme Court, U.S.
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No. _____

In The

Supreme Court of the United States

October Term, 1998

J. D. ABRAMS, INC.,

Cross-Petitioner,

v.

WILLIAM L. MILLER,

Cross-Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Fifth Circuit

CONDITIONAL CROSS-PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

Should a judgment creditor prevail under 11 U.S.C. § 523(a)(6) by showing that the debtor has been adjudged to have committed an intentional tort that caused damages to the creditor, or should the judgment creditor be required to obtain additional specific findings that the debtor engaged in the wrongful actions with specific intent to cause injury to the judgment creditor or with substantial certainty that his actions would cause damage to the judgment creditor?

Should the standard for nondischargeability under 11 U.S.C. § 523(a)(4) for embezzlement of trade secrets or proprietary information, as contrasted with money or physical property, be met by an objective showing of circumstances indicating fraud in lieu of proof of fraudulent intent?

LIST OF CORPORATE AFFILIATES

Cross-Petitioner J. D. Abrams, Inc.'s Parent company is Abrams International, Inc.

TABLE OF CONTENTS

Page

CROSS-PETITION FOR WRIT OF CERTIORARI 1

OPINION BELOW 1

JURISDICTION 1

STATUTORY PROVISION INVOLVED 1

STATEMENT 2

REASONS FOR GRANTING THE CROSS-PETITION .. 4

I. The Fifth Circuit's Opinion Directly Conflicts With the Supreme Court's Ruling in *Kawaauhau v. Geiger* that Intentional Torts Will Suffice to Satisfy 11 U.S.C. § 523(a)(6)'s "Willful and Malicious Injury" Exception to Discharge, and the Opinion Concerns an Important Federal Statutory Issue 4

II. The Second Question Presented Concerns an Important Federal Statutory Issue 6

CONCLUSION 10

APPENDIX A ..... App. 1

TABLE OF AUTHORITIES

Page

CASES

In re Brady, 101 F.3d 1165 (6th Cir. 1996) 8

In re Littleton, 942 F.2d 551 (9th Cir. 1991) 8

Kawaauhau v. Geiger, 523 U.S. 51, 118 S. Ct. 974, 140 L.Ed.2d 90 (1998) 4, 5

Miller v. J. D. Abrams, Inc., 156 F.3d 598 (5th Cir. 1998) 4

Moore v. United States, 160 U.S. 268, 40 L.Ed. 422, 16 S. Ct. 294 (1885) 8

STATUTES

11 U.S.C. § 523(a) ..... *passim*

11 U.S.C. § 523(a)(4) ..... *passim*

11 U.S.C. § 523(a)(6) ..... *passim*

18 U.S.C. § 1839(3) 7

18 U.S.C. § 1839(3)(B) 4

28 U.S.C. § 1254(1) 1

TEXTS

Michael J. McDermott, *Is International Marketing a Game of Spy versus Spy?*, Brandweek, June 20, 1994 7

Carl Quintanilla, *Tiny Cameras, Bugs and Secret Agents May Be Snooping on Your Business Trip*, Wall St. J., Nov. 10, 1995 7

CROSS-PETITION FOR WRIT OF CERTIORARI

Cross-Petitioner J. D. Abrams, Inc. ("Abrams") respectfully cross-petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Fifth Circuit in this case if the petition for writ of certiorari by Cross-Respondent William L. Miller ("Miller") is granted.

OPINION BELOW

The opinion of the court of appeals is reported at 156 F.3d 598 (1998), and it has been reprinted in Appendix A to Cross-Respondent Miller's petition for writ of certiorari.

JURISDICTION

The jurisdiction of the Court is invoked under 28 U.S.C. § 1254(1). Pursuant to Supreme Court Rule 12.5, this conditional cross-petition has been filed no more than 30 days after this case has been placed on the docket.

STATUTORY PROVISION INVOLVED

This cross-petition seeks the Court's interpretation of 11 U.S.C. § 523(a)(4) and 11 U.S.C. § 523(a)(6), which provide: "A discharge under section 727, 1131, 1228(a), 1228(b), or 1328(b) of this title does not discharge an individual debtor from any debt . . . "

(4) for fraud or defalcation while acting in a fiduciary capacity, embezzlement, or larceny;

* * *

(6) for willful and malicious injury by the debtor to another entity or to the property of another entity . . . .

STATEMENT

Abrams has a successful highway construction business in Texas. After serving as an officer and director at Abrams, Miller joined Balfour Beatty Construction, Inc. ("Balfour Beatty") to assist Balfour Beatty in starting up a highway construction division in Texas. Miller used and disclosed proprietary information and trade secrets of Abrams to Balfour Beatty. Abrams filed suit in state district court against Miller and his new employer. A jury trial resulted in a verdict that Miller misappropriated proprietary information or made an improper use of the trade secrets of Abrams, and that Abrams was damaged in the amount of $1 million. The state court entered a judgment based on the jury's verdict. The pertinent jury question, answer and instructions are attached hereto in Appendix A ("App. A").

Miller sought chapter 7 bankruptcy protection from the judgment. Abrams responded with an adversary proceeding seeking nondischargeability of the debt pursuant to 11 U.S.C. §§ 523(a)(4) and 523(a)(6). The bankruptcy court granted summary judgment for Abrams based on collateral estoppel, finding larceny *per se* and thereby holding that the state court judgment was a nondischargeable debt under § 523(a)(4). However, the court

denied relief requested through competing summary judgment motions as to § 523(a)(6). Both parties took an appeal to district court, which decided that the judgment debt was nondischargeable under § 523(a)(6) on the basis of the trial record establishing Miller's intentional conduct resulting in damage to Abrams. The district court, however, erred in finding that the bankruptcy court had correctly failed to find nondischargeability pursuant to § 523(a)(4). Miller appealed to the United States Court of Appeals for the Fifth Circuit.

The Fifth Circuit reversed and remanded. The Fifth Circuit concluded that under § 523(a)(6), injury is willful and malicious where there is either an objective substantial certainty of harm or a subjective motive to cause harm; and thus, issue preclusion did not apply because the jury did not find that Miller acted with the objective probability of injury. The Fifth Circuit also held that the jury verdict finding that Abrams acted wrongly in misappropriating proprietary information or improperly using trade secrets did not include a finding of fraudulent intent required under § 523(a)(4). The court stated that the parties were free on remand to try the issue of fraudulent intent under § 523(a)(4) or objective probability of injury or subjective motive to cause harm under § 523(a)(6).

Abrams seeks a granting of its cross-petition for a writ of certiorari because it believes that application of proper standards under 11 U.S.C. §§ 523(a)(6) and 523(a)(4) would result in a reversal of the Fifth Circuit decision and a rendering of judgment in favor of Abrams.

REASONS FOR GRANTING THE CROSS-PETITION

I. The Fifth Circuit's Opinion Directly Conflicts With the Supreme Court's Ruling in *Kawaauhau v. Geiger* that Intentional Torts Will Suffice to Satisfy 11 U.S.C. § 523(a)(6)'s "Willful and Malicious Injury" Exception to Discharge, and the Opinion Concerns an Important Federal Statutory Issue.

The Fifth Circuit's decision explicitly recognized that this Court, in *Kawaauhau v. Geiger*, 523 U.S. 51, 118 S. Ct. 974, 140 L.Ed.2d 90 (1998), construed § 523(a)(6)'s "willful and malicious injury" exception to bankruptcy discharge to fall into the category of intentional torts. *Miller v. J. D. Abrams, Inc.*, 156 F.3d 598, 603 (5th Cir. 1998). The Fifth Circuit also recognized that misappropriation of trade secrets is considered an intentional tort. 156 F.3d at 604. Then, however, the Fifth Circuit deviated from this Court's application of § 523(a)(6) to intentional torts and held that "merely because a tort is classified as intentional does not mean any injury caused by the tortfeasor is willful." *Id.* The Fifth Circuit fails to treat an intentional tort like an intentional tort, reasoning that the intentional tort of misappropriation of trade secrets might not be willful injury to the trade secret owner because "misuse of trade secrets is not precisely like stealing funds from a till, because the tortfeasor's gain is not inevitably a loss to the legal owner of the secret." *Id.* However, improper disclosure of trade secrets does inevitably result in a loss to the legal owner because "the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public." 18 U.S.C.

§ 1839(3)(B). The Fifth Circuit thereby creates unnecessary confusion in this important area of trade secret protection as well as an opening for further ambiguity.

The Fifth Circuit has created more hurdles for a judgment creditor to gain an exception for discharge, requiring that the creditor show not just that the debtor committed the intentional tort of taking trade secrets, but also that the debtor committed the intentional tort with the intent to injure the legal owner or with substantial certainty that the action would injure the legal owner. *Id.* Because in the Fifth Circuit's view the jury verdict and judgment prior to bankruptcy only established the intentional tort, but did not meet these other requirements, the Fifth Circuit refused to give the verdict and judgment conclusive effect to support an exception to discharge under § 523(a)(6).

Contrary to this Court's decision in *Kawaauhau v. Geiger*, the Fifth Circuit's decision adds new requirements for the proof sufficient for the § 523(a)(6) exception to discharge. Just when this Court has clarified the requirements under § 523(a)(6), the Fifth Circuit has started muddying the waters again with its added gloss on the standard that will create confusion not only in this context but in others where debtors can argue that a traditional intentional tort does not necessarily have as one of its elements an intent to cause injury.

In addition to the obvious conflict with this Court's decision, substantial policy reasons support granting certiorari. First, the decision below fails to recognize that taking of intangible property has the same consequences for a debtor as the taking of tangible property. The value

of a trade secret derives from it remaining a secret. When someone else takes that secret for their own use, the value of the trade secret to the owner has been diminished because of the loss of exclusivity and loss of control over who will have access to the information. Since trade secrets and other forms of intellectual property are prevalent and becoming more economically important, property owners of intangible interests deserve the same protection from unscrupulous debtors as enjoyed by owners of more tangible property.

Second, the effect of the Fifth Circuit's decision will be to make it much harder for victims of trade secret theft to recover from a debtor who commits the intentional tort, then files bankruptcy. Ironically, this additional burden of proof is placed on a creditor who has already established the wrongful intentional tort and damages arising from it: the only context in which this issue of an exception to discharge arises is where a creditor has a monetary claim against the debtor because of the debtor's theft of trade secrets.

Finally, clearing up this issue will promote judicial economy by preventing costly and inefficient re-litigation in bankruptcy court of issues already decided by a money judgment against the debtor for misappropriating trade secrets.

II. The Second Question Presented Concerns an Important Federal Statutory Issue.

With the onslaught of the information age, misappropriation of proprietary information and trade secrets has increased more than 250% from the mid-1980s to the

early1990s. Michael J. McDermott, *Is International Marketing a Game of Spy versus Spy?*, Brandweek, June 20, 1994, at 31. The problem continues to accelerate. For example, a survey conducted by the American Society for Industrial Security indicated that the incidents of trade secret theft tripled from just 1993 to 1995. Carl Quintanilla, *Tiny Cameras, Bugs and Secret Agents May Be Snooping on Your Business Trip*, Wall St. J., Nov. 10, 1995, at B1.

In this context, Abrams underscores that this case presents an important question of statutory interpretation in terms of the intrinsic nature of trade secrets under 11 U.S.C. § 523(a)(4). Typically embezzlement in the context of adversary proceedings to determine nondischargeability involve the misappropriation of money or funds. This case, however, involves a fundamentally different species of property – trade secrets or proprietary information. By definition, a trade secret is simply any type of information that the owner has taken measures to keep secret and that derives value from not being generally known by the public. 18 U.S.C. § 1839(3). For example, the trade secrets improperly used or the information misappropriated by Miller included Abrams' profit experience on past highway projects, profits expected by Abrams for future jobs, a listing of the specialized equipment used by Abrams for highway jobs, insights about financing the acquisition of that equipment, and expected profitability arising from the acquisition and use of that equipment.

Unlike money or physical property, trade secret information can be replicated mentally or physically and then purloined, while at the same time leaving the original intact and in the possession of the rightful owner. In

the context of nondischargeability, embezzlement is defined generally as the "fraudulent appropriation of property by a person to whom such property has been entrusted or into whose hands it has lawfully come." *Moore v. United States*, 160 U.S. 268, 269, 16 S.Ct. 294, 295, 40 L.Ed. 422 (1885). Under traditional definitions of embezzlement, fraudulent appropriation entails the wrongdoer's concealment of his or her wrongful conduct. When purloining trade secrets, however, a person need not necessarily conceal his or her misappropriation and subsequent improper use of the information. Absent acts of concealment, fraudulent intent may be impossible to establish. Accordingly, the question presented here is should the standard for nondischargeability under 11 U.S.C. § 523(a)(4) for embezzlement be met by an objective showing of circumstances indicating fraud, in lieu of proof of fraudulent intent, when the property involved is a trade secret or proprietary information.

"A creditor proves embezzlement by showing that he entrusted his property to the debtor, the debtor appropriated the property for a use other than that for which it was entrusted, ***and the circumstances indicate fraud.***" *In re Brady*, 101 F.3d 1165, 1173 (6th Cir. 1996) (emphasis added); *In re Littleton*, 942 F.2d 551, 555 (9th Cir. 1991). The law is unclear, however, whether circumstances indicating fraud can be established objectively. Apparently requiring subjective proof, the Fifth Circuit in this case interpreted "circumstances indicat[ing] fraud" as requiring a showing of "fraudulent intent." 156 F.3d at 603.

Assuming embezzlement of trade secrets or proprietary information may be established by an objective showing of circumstances indicating fraud, Miller would

be collaterally estopped from litigating the issue of non-dischargeability under 11 U.S.C. § 523(a)(4). The jury found affirmatively that Miller "misappropriate[d] proprietary information or ma[d]e an improper use of the trade secrets of J. D. Abrams, Inc." App. A, App. 1. For that verdict, the jury had been instructed in part as follows:

> You are instructed that when an individual or business creates information or a product through extensive time, labor, skill and money, ***that person or business is protected by law from the misappropriation of that proprietary information by others in competition who would gain a special advantage*** because they would be burdened with little or none of the expense of development.
>
> You are instructed that trade secret means any process, information or compilation of information, formula, pattern, or device that is used in one's business, and which gives an opportunity to obtain an advantage over competitors who do not know of or use it . . . .
>
> ***The disclosure of such information must have been made in confidence so as to place [Miller] under a duty not to disclose the information to others or to use the information for [his] own benefit*** . . . .

App. A, App. 1-2 (emphasis added).

Hence, the jury's affirmative verdict necessarily established that Miller was placed "under a duty not to disclose the information to others or to use the information for his own benefit." *Id.* But Miller disclosed the

protected information to his new employer Balfour Beatty anyway, using the information for his own benefit.

Miller's improper disclosure indicates circumstances of fraud because it was made knowingly to "[his new employer] in competition [with Abrams,] who would gain a special advantage [over Abrams]." *Id.* at App. 1. These circumstances indicating fraud therefore justify a finding of embezzlement under § 523(a)(4), precluding Miller from relitigating the issue.

CONCLUSION

For these reasons, Cross-Petitioner Abrams' cross-petition for a writ of certiorari should be granted if Cross-Respondent Miller's petition for a writ of certiorari is granted.

Respectfully submitted,

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APPENDIX A

QUESTION NO. 6

Did any of the following Defendants misappropriate proprietary information or make an improper use of the trade secrets of J.D. Abrams, Inc.?

Answer "Yes" or "No" as to each Defendant.

(a)	William L. Miller	Answer: [Yes]
(b)	Balfour Beatty Construction, Inc.	Answer: [No]
(c)	Balfour Beatty, Inc.	Answer: [No]
(d)	Balfour Beatty, Ltd.	Answer: [No]

You are instructed that the term misappropriation means the wrongful taking and use of another's property.

You are instructed that when an individual or business creates information or a product through extensive time, labor, skill and money, that person or business is protected by law from the misappropriation of that proprietary information by others in competition who would gain a special advantage because they would be burdened with little or none of the expense of development.

You are instructed that trade secret means any process, information or compilation of information, formula, pattern, or device that is used in one's business, and which gives an opportunity to obtain an advantage over competitors who do not know of or use it. In order to be a trade secret there must be a substantial element of secrecy; however, secrecy need not be absolute.

The disclosure of such information must have been made in confidence so as to place the other party under a

duty not to disclose the information to others or to use the information for one's own benefit. The subject matter of a trade secret must not be public knowledge in the trade or business.

A former employee may use the general knowledge, skills, and experience acquired during his prior employment to compete with a former employer but may not use trade secret or proprietary information gained as a consequence of his employment.

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OCTOBER TERM, 1998

J.D. ABRAMS, INC.,

Cross-Petitioner,

vs.

WILLIAM L. MILLER,

Cross-Respondent.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

CROSS-RESPONDENT'S BRIEF IN OPPOSITION

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The Cross-Respondent, William L. Miller ("Miller"), respectfully requests that the Court deny the conditional cross-petition for a writ of certiorari filed by the Cross-Petitioner, J.D. Abrams, Inc. ("Abrams"), seeking review of the judgment and opinion of the United States Court of Appeals for the Fifth Circuit entered in this case on September 24, 1998, and reported at 156 F.3d 598.

STATEMENT OF THE CASE

Abrams, a successful Texas highway and road contractor, employed Miller from June 1985 until February 28, 1994, when Miller left his position as vice president and director at Abrams to become manager and chief operations officer of Balfour Beatty Construction, Inc. ("Balfour Beatty") in its highway division. As an officer and director of Abrams, Miller was privy to proprietary information and trade secrets. Balfour Beatty recruited Miller to start its highway division in Texas. During a series of meetings concerning his prospective employment, Miller disclosed proprietary information and trade secrets of Abrams to agents of Balfour Beatty.

On April 18, 1994, Abrams filed suit in a Texas state court against Miller and Balfour Beatty. The case was tried to a jury in November of 1995. The jury found that Miller misappropriated proprietary information or made an improper use of the trade secrets of Abrams and awarded Abrams damages of $1 million. The jury also decided that Miller had not breached any fiduciary duties owed to Abrams and that punitive damages were not appropriate because Miller did not act with "malice mean[ing] ill will, evil motive, or flagrant disregard for the rights of others."

Miller filed a voluntary chapter 7 bankruptcy petition seeking protection from the state court judgment. Abrams

initiated an adversary proceeding seeking an exception to discharge under 11 U.S.C. §§ 523(a)(4) and 523(a)(6). Based on the doctrine of collateral estoppel, the United States Bankruptcy Court for the Western District of Texas, Austin Division ("Bankruptcy Court"), granted summary judgment in favor of Abrams holding that the state court judgment was a nondischargeable debt under § 523(a)(4). The Bankruptcy Court, exercising its jurisdiction under 28 U.S.C. §§ 157 and 1334, denied the parties' competing motions for summary judgment under § 523(a)(6). Miller and Abrams both appealed. The District Court affirmed holding that the state court judgment was nondischargable based on principles of collateral estoppel. Miller appealed the judgment of the District Court. The Fifth Circuit reversed and remanded, holding that the jury's findings in the state court did not speak to whether Miller acted with fraudulent intent for purposes of § 523(a)(4) or whether an objective probability of injury existed for purposes of § 523(a)(6).

The Fifth Circuit surmised,

> If the subjective standard alone were the standard, issue preclusion would give Miller victory because the jury found that he did not act with "malice," defined by the court to include "evil motive."

Matter of Miller, 156 F.3d 598, 604 (5th Cir. 1998). Contrary to the statement made by Abrams in its conditional cross-petition, the Fifth Circuit noted,

> Since the jury's findings in the state court did not speak to whether Miller acted with fraudulent intent or the objective probability of injury from Miller's tortious acts, the parties are free to try this issue for the first time.

Miller, 156 F.3d at 606. Simply put, as to the question of whether Miller acted with a subjective motive to cause harm, the Fifth Circuit found that collateral estoppel would apply in Miller's favor. This issue will not be retried unless the Court decides otherwise.

REASONS WHY THE CROSS-PETITION SHOULD BE DENIED

I.

THE COURT'S PRIOR DECISIONS ARE CONTROLLING.

The Court has previously explained that not every tort judgment for conversion is exempt from discharge. *Kawaauhau v. Geiger*, __ U.S. __, 118 S. Ct. 974, 977, 140 L. Ed. 2d 90 (1998) citing *Davis v. Aetna Acceptance Co.*, 293 U.S. 328, 55 S. Ct. 151, 977, 79 L. Ed. 2d 393 (1934).

II.

THE FIFTH CIRCUIT FULLY CONSIDERED AND CORRECTLY DECIDED THE ISSUE.

In accord with the Court's prior decision in *Kawaauhau*, the Fifth Circuit adheres to rule of law that a claim for the tort of conversion does not necessarily involve an intentional injury. *State of Texas v. Walker*, 142 F.3d 813, 823 (5th Cir. 1998). In the instant case, the Fifth Circuit fully considered the issue and correctly concluded, "Merely because a tort is classified as intentional does not mean that any injury caused by the tortfeasor is willful." *Miller*, 156 F.3d at 604.

III.

ONLY QUESTIONS OF EVIDENCE AND FACTUAL FINDINGS ARE INVOLVED.

The jury made a factual finding that Miller did not act with "malice" which the trial court defined to include "evil motive." *Miller*, 156 F.3d at 604. Based on this factual finding, the Fifth Circuit correctly concluded the jury had found that Miller did not act with a subjective intent to cause injury to Abrams. *Id.* The jury also found that Miller had not breached any fiduciary duties owed to Abrams. *Miller*, 156 F.3d at 601.

Miller has argued *ab initio* that his level of culpability does not exceed that of simple negligence. At the trial before the Bankruptcy Court, Miller intends to present evidence to show he did not act with a fraudulent intent or with knowledge of a substantial certainty that Abrams would suffer any injury as a result of his actions. The jury's refusal to find that Miller acted with malice toward Abrams coupled with the failure to find that Miller breached any fiduciary duties owed to Abrams supports this position. The Court has previously held that a debt which arises from a negligently inflicted injury does not fall within the ambit of 11 U.S.C. § 523(a)(6). *Kawaauhau*, __ U.S. at __, 118 S. Ct. at 978.

IV.

THE DECISION BELOW FOLLOWS AN UNBROKEN LINE OF AUTHORITY.

Abrams would have the Court carve out an exception to the rule of law that a trier of fact is required to examine a defendant's scienter or specific intent prior to a finding of either larceny or embezzlement. The proposed exception would apply

only in cases involving misappropriation of trade secrets or proprietary information. Felonious or fraudulent intent, however, is a prerequisite for each of these offenses. Embezzlement differs from larceny only in that the *original* taking was lawful. *See generally Moore v. United States*, 160 U.S. 268, 269, 16 S. Ct. 294, 295, 40 L. Ed. 422 (1885) and its progeny. Absent intent to defraud, a defendant's appropriation does not rise to the level of embezzlement. At the trial before the Bankruptcy Court, Miller intends to present evidence to show he held an honest, but mistaken belief that he had a right to disclose the subject information to Balfour Beatty. This evidence will negate any inference of fraudulent intent.

CONCLUSION

For all of the foregoing reasons, Abrams' conditional cross-petition for writ of certiorari should be denied.

Respectfully submitted,

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